

Financial Horizons

Arizona State Retirement System

Spring 2006

Message from ASRS Director Paul Matson

Have you ever attempted to take a trip without a good map?

The result can be a confusing journey, filled with twists and turns and unexpected results.

The Arizona State Retirement System recently completed its new road map. The Strategic Plan for the period from 2006 through 2008 was recently approved by the Board of Trustees and provides our organization with a clear set of directions. It's our road map for the future.



Guided by our agency Vision and Values document, the Strategic Plan outlines goals and objectives for the various ASRS internal functions that have an effect on the services we provide to our members, retirees and employer partners. Our primary focus remains on continuing to provide a safe, secure benefit package to our valued members.

Strategic actions taken since 2003 have addressed program inefficiencies and inequities and have resulted in mitigating future contribution rate increases by 1.4 percent. Health insurance costs have been constrained while access to choice has generally been expanded. Investment strategies are regularly examined and enhanced. Services to our members have been expanded and improved. The ASRS is

Continued on Page 7

ASRS Monitors for Inaccurate and Fraudulent Claims

Each month the Arizona State Retirement System processes up to 1,700 retirement applications, 500 service purchase requests, and a myriad of other member requests, including benefit estimates, and beneficiary, name and address changes.

An important part of this process is not only ensuring that members receive the benefits to which they are entitled, but also ensuring that information provided by members that is used to process those benefits is true and accurate.

This due diligence is vital to ensure that only legitimate distributions are made through the pension plan, long-term disability plan and health insurance supplement program.

Continued on Page 6

New Website Address

To comply with standard practices for all state agencies, the Arizona State Retirement System has changed its website address.

www.azasrs.gov is now the home of the Retirement System's website. The old address, www.asrs.state.az.us, will redirect users automatically to the new address for the next several months. Beginning in 2007, however, it will no longer work.

The ASRS website has a host of information, including the most up-to-date news on benefits, legislation and meetings. There are sections devoted to members, retirees and employer partners, as well as a host of publications and documents.

We invite you to bookmark the site and check it periodically to see what's new!

Inside This Issue:

ASRS News	2
Contribution Rates	2
Retiree News	3
Annual Financial Report Summary	4
Member Meetings	6
Director Outreach Schedule	6
ASRS Publications Online	7
ASRS Board of Trustees	7
Keep the ASRS Informed	8

ASRS News

ASRS Fund Ranked 100th Largest in the World

The Arizona State Retirement System was recently ranked the 100th largest pension fund in the world, according to a survey published in *Pensions & Investments* magazine.

The survey, conducted by *Pensions & Investments* and Watson Wyatt Worldwide, ranked public and private pension funds by total assets held in trust and noted that the world's 300 largest pension funds held assets in excess of \$8.3 trillion in 2004.

The ASRS fund totaled just over \$21 billion. The largest fund, the Government Pension Investment Fund of Japan, held just over \$1 trillion. The California Public Employees Retirement System, the largest in the United States, held assets of \$168 billion and was ranked third worldwide.

Legislators Vote to Continue ASRS

The Arizona State Retirement System was given a vote of confidence by legislators in December at a Sunset Review hearing that authorized continuation of the retirement system.

Established in 1978, Sunset Review is the process by which the Legislature reviews the purpose and functions of state agencies to determine whether continuation, revision, consolidation or termination is warranted. Sunset reviews are based on audits conducted by either the Office of the Auditor General or a Committee of Reference.

The Auditor General's Office spent much of 2005 reviewing the ASRS and issued a report in September.

The committee, co-chaired by Sen. Dean Martin and Rep. Trish Groe, voted unanimously to continue the ASRS.

A bill is now making its way through the legislative session which formally authorizes the ASRS to continue through 2016. The Sunset Review process takes place every 10 years for state agencies.

ASRS Receives Public Pension Standards Award

The Arizona State Retirement System has received the Pension Standards Award for 2005 from the Public Pension Coordinating Council. The award recognizes the ASRS for "meeting professional standards for plan design and administration."

The standards as set forth by the PPCC cover such areas as benefits provided, funded status, plan valuation, investment policies and member communications.

The application process also notes that the ASRS obtains an independent audit of its financial statements and an outside actuarial valuation of the system, as well as the compilation of an annual report that meets the professional standards set forth by the Government Finance Officers Association.

The Public Pension Coordinating Council is a confederation of the National Association of State Retirement Administrators, the National Conference on Public Employee Retirement Systems, and the National Council on Teacher Retirement.

Fiscal Year 2006-07 Contribution Rate

As required by state statute, the Arizona State Retirement System adjusts contribution rates each fiscal year to ensure the pension plan, retiree health insurance premium benefit program and the long term disability income plan remain financially sound.

The contribution rate for the combined ASRS Defined Benefit Plan and Health Insurance Premium Benefit Program is scheduled to increase on July 1, 2006, to 8.6 percent from the current rate of 6.9 percent. The rate for the ASRS Long Term Disability program will remain at the current 0.5 percent. As a result, the total contribution rate paid by both the member and the employer will be 9.1 percent.

The increase is necessary to ensure the retirement plan remains adequately funded to meet current and future obligations.

Contribution rates are based upon actuarial factors. Due to a variety of factors, including past improvements to the benefit package, low historic contribution rates, low mid-term investment returns and changing member demographics, the contribution rate has been on an upward trend.

The ASRS continues to be engaged in a comprehensive equity and efficiency review of the Plan and has implemented a number of changes to mitigate the increases. The primary mission of the agency remains to provide a safe, secure retirement plan that provides for life-long income to our members upon retirement.

ASRS Contribution Rate Fiscal Year 2006-07 (Effective July 1, 2006)			
	Retirement Pension & Health Insurance Premium Benefit	Long Term Disability	Total
Employee	8.60%	0.50%	9.10%
Employer	8.60%	0.50%	9.10%

Retiree News

ASRS Health Plan and Medicare Prescription Drug Coverage

May 15 is the deadline for seniors to enroll in the federal government's Medicare Part D prescription drug plan for 2006 without penalties this year. The next open enrollment period will be Nov. 15, 2006 to Dec. 31, 2006 for a Jan. 1, 2007 effective date.

For ASRS retirees participating in an ASRS or employer sponsored health insurance plan, the prescription drug coverage through those plans is equal to or better than the Medicare Part D plan, and, therefore, there is no need to enroll in the Part D program. It is, however, the individual's choice, although there are consequences that will result. A Medicare-eligible retiree may be enrolled in only one Medicare Part D plan at a time. If an ASRS retiree who is enrolled in an ASRS-sponsored retiree medical plan enrolls in a separate Medicare Part D plan, that ASRS retired member will be disenrolled from the ASRS-sponsored retiree medical plan.

The ASRS plans, offered through PacifiCare of Arizona and Secure Horizons, provide "creditable prescription drug coverage." This means that coverage is on average at least as good as standard Medicare prescription drug coverage. Medicare-eligible retirees may stay with their ASRS plan and experience no increases in premiums for drug coverage. And, if retirees choose to later obtain coverage through Medicare, no penalty will be assessed because of their continued participation in the ASRS creditable prescription drug coverage.

Additional information on the Medicare Part D prescription drug plan is available at www.medicare.gov. For information on your health insurance plan as it relates to Medicare Part D, please contact your insurance provider.

ASRS Website Links Offer Host of Informative Sites for Retirees

The Arizona State Retirement System website offers a host of information relating to your pension benefits, and to retirement in general. Among the services provided is a "Helpful Links" section, which members can access at the top of the home page at www.azasrs.gov.

Contained in the links pages are retirement organizations that also offer help and services to ASRS members, including the American Association of Retired Persons.

There are local associations that focus on retired teachers, too, including:

- All Arizona School Retirees Association at www.aasra.org
- Pima County Retired Teachers Association at www.pcrrta.com

In general, the ASRS offers its website links to non-profit organizations that assist or are geared toward members. Organizations that wish to have links off the ASRS website may call the Communications Office at (602) 240-2016 for more information or to request a form to have their link added to the website.

Working After Retirement

Many retired ASRS members receiving a monthly pension choose to return to work, either because they want some extra income, or because they enjoy staying active in the workforce. There are circumstances that allow retirees to return to work while still collecting their pension. In general, these rules apply:

Member Who Retires at Normal Retirement

If you retire at age 65, or at age 62 with at least 10 years of service, or at 80 points:

- You may return to work for an ASRS member employer the day after retirement and work less than 20 hours per week for any length of time and remain eligible to continue receiving your pension benefits.
- You may return to work the day after retirement and work 20 hours or more a week for 19 weeks in any fiscal year and continue to receive your pension benefits.

If you continue working 20 hours or more per week, you will resume active membership and the ASRS will suspend your pension benefit and your employer will be required to withhold retirement contributions from your wages.

After 12 Months of Retirement

If you have been retired for 12 months and not meeting the conditions of ASRS active membership, upon reaching normal retirement you may return to work for an ASRS employer for any amount of time and continue to receive your pension benefits.

Working for a Non-ASRS Employer

You may retire, receive your pension benefits and work for a non-ASRS employer without restrictions.

Additional rules apply for members who take an early retirement benefit. For more information, please visit the Retired Members section on the ASRS website.

Annual Financial 2004 -

The Arizona State Retirement System is pleased to present this summary of the Comprehensive Annual Financial Report for the fiscal year 2004-05. The 123-page report provides detailed information on Finances, Investments, Actuarial data and general Statistics of the agency.

This 52nd Comprehensive Annual Financial Report outlines the fiscal health of the retirement system for the 2004-05 fiscal year.

The report includes information from an external actuary, hired by the ASRS to provide forward-looking data and trends that assist in planning, particularly calculating contribution rates that keep the ASRS fund sound.

Also contained in the report is the Independent Auditors' Report, conducted this year by Deloitte & Touche, LLP. The 2005 annual report includes an "unqualified" opinion by the auditor, which represents the highest standard and certifies the ASRS basic financial statements present fairly the net assets of the funds of the ASRS for the fiscal year period of July 1, 2004 through June 30, 2005.

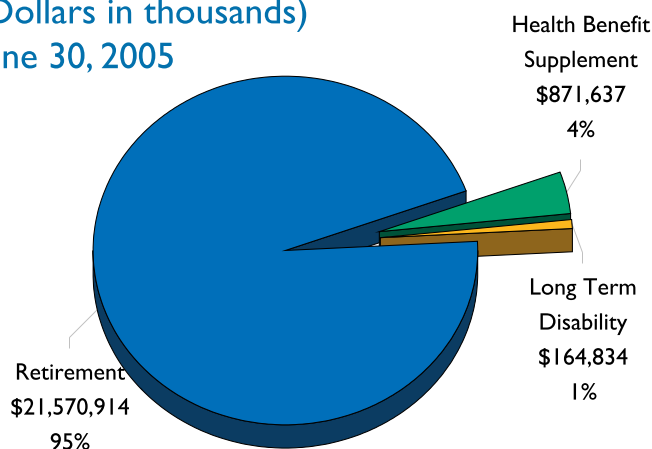
The report meets the standards and requirements for reporting as set forth by the Government Finance Officers Association of the United States and Canada. ASRS annual reports have received the GFOA Certificate of Achievement

for Excellence in Financial Reporting for the past 16 years.

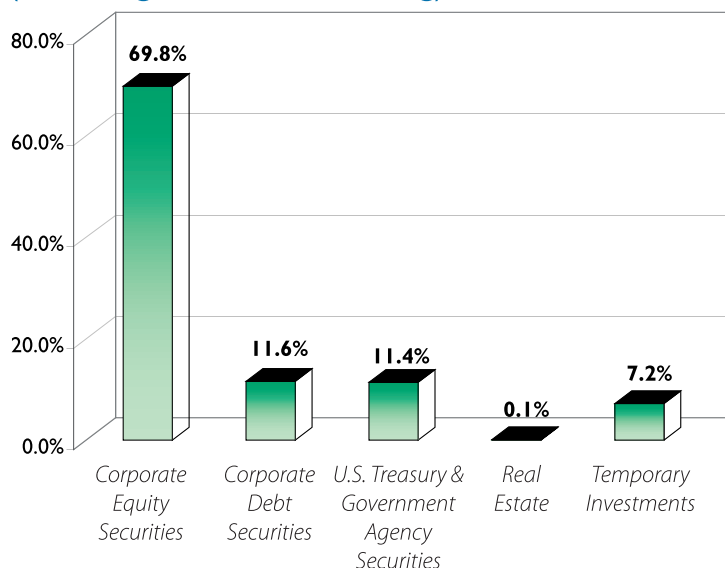
In keeping with the State of Arizona's emphasis on electronic business, and cost savings on printing, a limited number of the books were printed and are made available upon request.

To view the entire report, please visit the ASRS website at www.azasrs.gov.

Net Assets by Fund (Dollars in thousands) June 30, 2005



Investment Portfolio Components (Including Securities Lending)



Schedule of Investments (Dollars in thousands)

	Market Value
Corporate Equity Securities	\$15,751,417
Corporate Debt Securities	2,617,193
U.S. Treasury & Government Agency Securities	2,564,711
Real Estate	26,774
Temporary Investments	4,181,238
Net Payables on Transactions	2,565,809
Total Portfolio	\$22,575,524

Report Summary 2005

Plan Net Assets (Dollars in thousands)

	2005	2004
Assets		
Cash and receivables	\$2,190,345	\$2,232,468
Investments at fair value	23,000,280	22,049,392
Securities lending	2,279,978	2,289,996
Total assets	27,470,603	26,571,856
Liabilities		
Payables for investments	2,583,240	2,850,761
Securities lending	2,279,978	2,289,996
Total liabilities	4,863,218	5,140,757
Total Net Assets	\$22,607,385	\$21,431,099

Changes in Net Assets (Dollars in thousands)

	2005	2004
Additions		
Employee contributions	\$442,643	\$413,462
Employer contributions	442,643	413,458
Member reimbursements and transfers from other plans	141,932	113,944
Investment and securities lending income	1,878,072	3,280,722
Investment and securities lending expense	(74,680)	(51,937)
Total additions	2,830,610	4,169,649
Deductions		
Retirement and disability benefits	1,558,332	1,381,622
Survivor benefits	18,402	14,859
Refunds and transfers	48,745	38,548
Administration and other	28,845	33,409
Total deductions	1,654,324	1,468,438
Net Change	1,176,286	2,701,211
Net assets beginning of year	21,431,099	18,729,888
Net assets end of year	\$22,607,385	\$21,431,099

ASRS Demographics as of June 30, 2005

Total Membership	442,790
Fund Balance (market value)	\$22.6 billion
Rate of Return	8.5%
10-Year Rate of Return	9.4%
Contribution Rate (Employee & Employer)	* 7.4%
Normal Cost	13.1%
Funded Status of Total Plan	85.3%
Active Members	212,275
Average Age of Active Members	44.7
Average Annual Salary	\$37,853
Inactive Members	149,933
Retired Members & Survivor Beneficiaries	75,650
Average Monthly Benefit	\$1,510
Average Age of Retired Members	69.6
Long-Term Disability Members	4,932
Employer Members	** 735

* includes 6.9% pension & health insurance benefit rate and 0.50% LTD rate

** includes 111 separate state agencies

Educational Meetings to Inform, Assist Members

The Member Services Division of the ASRS conducts educational meetings available to all members. Whether you're newly hired and want to learn about the benefits available to you, or you're ready to retire and want assistance filling out your paperwork and making annuity selections, the ASRS has a meeting for you.

Group Meetings are designed for members within one year of retiring. You'll learn about potential monthly benefits and options, completing retirement paperwork, health insurance, and return-to-work options.

Seminars are open to all members and are especially helpful to new members. You'll learn about the ASRS, benefits as an active, inactive and retired member, member responsibilities, retirement benefit calculations, wills and trusts and Social Security benefits.

Service Purchase Meetings are open to all members. Here you'll learn about the Service Purchase Program, the process for purchasing service, types of service available for purchase, cost calculations and payment options.

Visit our website and click on the Calendars section to see a full listing, including our spring statewide travel schedule. Reservations are required and can be made by calling the Member Service Advisory Center at (602) 240-2000 in Phoenix, (520) 239-3100 in Tucson, or (800) 621-3778 outside Phoenix and Tucson.

ASRS Vision

For the benefit of our members, the Arizona State Retirement System will be a leading state benefit plan administrator in the areas of:

- Core Member Services
- Funded Status
- Investment Performance
- Operational Effectiveness

This will be accomplished while keeping program benefits and associated costs relatively aligned and maintaining actuarial and fiscal integrity.

Director Outreach Meetings Scheduled

ASRS Director Paul Matson has scheduled Director Outreach meetings for the second half of 2006 in Tucson and Sierra Vista.

This is the second series of meetings that has taken Mr. Matson to various parts of the state to meet with members and retirees.

The informal meetings provide an opportunity to discuss issues and information related to the retirement system.

"I have found these meetings to be a valuable and pleasurable experience, an opportunity to hear concerns and suggestions from our members and retirees and to share information as we continue to improve our services," Mr. Matson said.

Director Outreach meetings are scheduled for:

- Tucson – Thursday, June 22, 12:30 p.m., at the ASRS Tucson Office, 7660 E. Broadway Blvd., suite 108.
- Sierra Vista – Thursday, October 12, 10 a.m., at the Sierra Vista Public Library, 2600 E. Tacoma St.

No reservations are required to attend the Director Outreach meetings. Information: (602) 240-2016.

ASRS Monitors for Inaccurate and Fraudulent Claims, *continued from page 1*

To combat potential abuse, a series of checks and balances are in place to ensure benefits paid to members are legitimate. These include:

- A service audit of an individual's account conducted at the time application for retirement is made. A follow-up audit is also conducted within one year of retirement to be sure the correct credited service and salary were used in calculating the benefit.
- A review and verification of service purchase requests.
- Periodic agency wide internal audits conducted to review the efficiency and accuracy of business processes and procedures.
- Periodic employer audits conducted by the ASRS to confirm employer payroll accuracy.

In cases where incorrect or illegitimate payments are made, appropriate collections procedures are fully implemented by the ASRS.

Director's Message, continued from page 1

moving ahead, and our Strategic Plan will continue to guide us.

The Strategic Plan outlines a series of goals and objectives – some very specific – for the three main areas of Operations, Investment and Administration.

The four areas that will enable us to achieve our goals and objectives are:

- Agency Governance – Regular examination, adherence and updates to agency governance documentation.
- Management and Performance Measurement – Ongoing management and performance measurement processes to analyze and report on milestones and setbacks.
- Strategic Initiatives and Business Plans – Timely and flexible development and implementation of strategic initiatives and business plans.
- Budgets and Human Resources – Development of budgets and human resources that facilitate the achievement of strategic initiatives, goals and objectives.

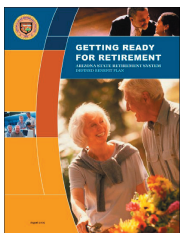
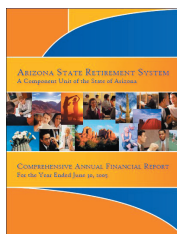
I encourage you to review this plan as we put it into action over the next three years. Like any journey, there will likely be some surprises along the way - roadblocks and new directions. The ASRS is committed to striving to ever improve the services we offer our members.

Paul Matson, Director

To view the ASRS Strategic Plan - 2006-2008, visit our website at www.azasrs.gov, and click on About Us.

ASRS Publications Now Available to Members Online

The *Comprehensive Annual Financial Report* for the fiscal year that ended June 30, 2005 provides detailed information on Finances, Investments, Actuarial calculations and general Statistics of the ASRS. It includes the audited financial statements, which have been certified as a "fair and accurate" look at the fiscal stability of the retirement system.



Getting Ready for Retirement is your guide to planning your retirement. This 39-page guide covers how your retirement benefit is calculated, selecting your annuity option, filling out the necessary paperwork, information on health insurance and more!

These publications and others are available on the ASRS website at www.azasrs.gov.

ASRS Board of Trustees

Dr. Keith Meredith, Chair, Tucson
Member at Large

Karl Polen, Jr., Vice Chair, Phoenix
Public Representative

David Byers, Phoenix
State Employees Representative

Jaime Gutierrez, Tucson
Educators Representative

Christopher Harris, Phoenix
Public Representative

Anne Mariucci, Phoenix
Public Representative

Michael Townsend, Flagstaff
Political Subdivisions Representative

Lawrence Trachtenberg, Scottsdale
Public Representative

Steven Zeman, Phoenix
Retirees Representative

Upcoming Board of Trustee Meetings

May 19	October 20
July 21	November 17
August 18	December 15
September 15	

Meetings are held in the 10th Floor Board Room of the ASRS offices at 3300 N. Central Avenue, Phoenix. Meetings begin at 8:30 a.m. and are open to the public. Meeting schedules, agendas and minutes are available on the ASRS website.

Executive Staff

Paul Matson, Director

Anthony Guarino, Deputy Director,
Chief Operations Officer

Gary Dokes
Chief Investment Officer

Financial Horizons

P.O. Box 33910
Phoenix, AZ 85067-3910

PRSRT STD
U.S. Postage

PAID

Arizona State
Retirement System

Contact Us!

On the Web: www.azasrs.gov

E-Mail: contactus@azasrs.gov

Phoenix Office
3300 North Central Avenue
Post Office Box 33910
Phoenix, AZ 85067-3910
(602) 240-2000

Tucson Office
7660 East Broadway Boulevard
Suite 108
Tucson, AZ 85710-3776
(520) 239-3100

Outside Metro Phoenix and Tucson
Toll Free at 1 (800) 621-3778

TTY for Hearing Impaired
(602) 240-5333

Comments?

ASRS *Financial Horizons* is published periodically and mailed to retired and non-retired members of the Arizona State Retirement System. We welcome letters from our readers and encourage you to address your comments to:

Editor
Financial Horizons
P.O. Box 33910
Phoenix, AZ 85067-3910

The ASRS complies with the *Americans with Disabilities Act of 1990*. This newsletter is available in an alternate format upon request. Contact Tracy Darmer, ADA Coordinator, at (602) 240-5378. Information in the newsletter about retirement laws or policies is only a guide. If a conflict arises between information contained in the newsletter and the law, the law takes precedence.

Keep ASRS Informed of Changes!

It is vital for members to keep the ASRS informed of changes in their personal lives so that we can be sure your account information is accurate and up-to-date.

Be sure to report:

- A change of address, telephone number or email address.
- A change in marital status.
- A name change due to marriage, divorce or other circumstance.
- A change or addition to your desired beneficiary or beneficiaries.

Members must have a primary beneficiary on file and can select additional secondary beneficiaries. You can even list a trust or charitable organization, if you'd like.

Members can obtain forms to accommodate these changes on the ASRS website, under the Forms section, or by calling our Member Service Advisory Center at any of the numbers listed in the Contact Us box on this page.